

Effective policies can fix inflation: D Subbarao

NEW DELHI: Inflation in India is mostly on account of supply constraints, which can be corrected through effective policy implementation, RBI has said.

"The key to our collective national aspiration for sustained high economic growth is low and steady inflation," RBI governor D Subbarao said on Friday, adding that price stability was essential to help investors and consumers make informed choices and contribute to growth.

Subbarao said that admittedly, the average inflation rate in India over the past three years has trended up, but the context presents neither a necessary nor a sufficient condition for the RBI to revise its inflation goal.

"Accepting a new normal for inflation not only has no theoretical or empirical support, but entails the moral hazard of policy inaction in dealing with supply constraints," he said. Subbarao said there is no empirical evidence to establish that the benefits of higher growth outweigh the costs of welfare loss associated with higher inflation.

"The responsibility of the RBI in this regard is to anchor inflation expectations and ensure price stability," he said.

(Economic Times)